

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION LACERA

**Board of Investments
Powers Reserved Defined**

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v9

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Powers Reserved for the Board of Investments

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Introduction

The Meaning of Governance

Overall responsibility and accountability for LACERA's investments and organizational performance rests with the Trustees of the Board of Investments (Board). Since Governance is fundamentally about decision-making, it raises some fundamental questions:

- What are the key decisions?
- Who gets to make them?
- Using what criteria?
- What are the priorities?
- What is the highest and best use of limited Board time?
- Where should Trustees focus given their limited time?

What is a Power Reserved?

Within the framework of its governing legislation, a Power Reserved is a decision authority, other action or responsibility which a Board chooses to retain solely for itself. The Board will reserve for itself a number of powers or decision authorities. In certain cases, these powers are shared with the Board of Retirement, for example:

- the appointment of the CEO;
- classification and compensation of personnel; and
- adoption of LACERA's annual budget.

Role of Committees

In many organizations, the bulk of the work of the Board is assigned to Committees (standing or ad hoc) and supported by staff and consultants. Work is assigned to Committees but authorities are generally not delegated. Committees are intended to do the work and make recommendations to the full Board for its Approval.

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Prudent Delegation

The Board may prudently delegate authorities to the CEO (and thereby the staff) and consultants if it establishes a robust process for selection, instruction, reporting, monitoring, questioning and evaluation of their qualifications, goals and results. Under the fiduciary standard applicable to LACERA, practices of similar prudent Trustees provide relevant guidance and many delegate to committees, staff, advisors and managers.

By prudently delegating, instructing and monitoring delegates that have more time and access to expertise, the Board can improve its effectiveness. In the absence of full-time, expert attention to Investments, it may be prudent for Trustees to delegate regardless of their individual level of expertise.

Level of Involvement

Given its overall responsibility and accountability, the Board has determined the level of its involvement in the exercise of various powers / authorities. The following framework uses three levels of involvement:

| Power | Description |
|-----------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Conduct | The Board itself performs the tasks described. This is the highest level of involvement. The Board or its Committees (standing or ad hoc) is actively involved in doing the work, e.g., writing the requirements, conducting due diligence, selecting and interviewing finalists, making the recommendation to the full Board for Approval. |
| Approve or Set | The Board retains final decision authority on prudently delegated activities to approve or set policies and limits, e.g., Asset Allocation. Once approved, the Board must then Oversee to ensure that actual practice reflects policy. |
| Oversee | The Board has a minimum legal duty to monitor and question. The Board reserves the power to oversee that prudently delegated authorities are properly exercised, appropriate policies and controls are in place and delegates (CEO/staff) are held accountable for performance. Oversee does not constitute close supervision and day to day management |

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The Board reserves the power to change its level of involvement based on changing circumstances. There are a number of important policy areas that the Board will want to approve and then prudently delegate and oversee.

Categories of Authorities

There are 48 specific authorities organized into four categories of decisions:

1. Governance and Strategy
2. Investment
3. Reassurance, Risk and Compliance
4. Administration

| Category of Authority | Definition |
|----------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Governance and Strategy | key decision-making powers, including powers reserved for the Board; Board, Committee and organizational structures; officer role descriptions; policies and strategic direction-setting; implementation of strategy; planning for achieving goals; and providing the people and tools necessary to execute plan including delegations of authority and engagement of stakeholders |
| Investment | investment policies and actuarial matters, including determination of pension obligations and liabilities and pension soundness; investment beliefs; Investment Policy Statement; roles and responsibilities of the Board, consultants, and staff in connection with the purchase, sale, and monitoring of investments; expectations as to frequency and general content of investment reporting; policy statement re: goals and objectives and the selection and processing of investments to achieve expected returns on assets with acceptable levels of risk; oversight of investment performance, operations and risk |
| Reassurance, Risk and Compliance | independent reasonable reassurance (e.g., internal / external audit, counsel, and third parties such as consultants) that management's reports are reliable, due diligence is robust and risk mitigation, compliance and control processes are performing as expected |
| Administration of the investment operations | Human Resources policies and activities related to overseeing the investment operations in conjunction and coordination with the Board of Retirement for the hiring, evaluation and compensation of staff to ensure an appropriately skilled and resourced organization; Finance and Accounting policies and processes of recording and reporting on financial and business operations; Information Technology includes computers, networks and software designed to process and protect private and business critical data and produce timely information and insight for decision-making; and decisions to commence or settle legal disputes |

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The following list of Powers Reserved takes into account the unique legislative framework of the Board using a set of leading practices and input from Funston Advisory Services, Meketa Consultants and the CEO, followed by a survey of Trustees and individual interviews.

| # | Powers Reserved for Board | Definition |
|--------------------------------|---------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Governance and Strategy | | |
| 1 | Approve powers reserved for the Board of Investments | the decision authorities and activities reserved exclusively for the Board |
| 2 | Approve Board charter | the purpose, roles, responsibilities, and processes of the Board (individually and collectively) and management in setting the direction, the management and control of the organization, role of officers (chair, vice-chair, secretary) |
| 3 | Approve Board committee structure, roles and charters | standing and ad hoc committees and their purpose/mission, authority and responsibilities, qualifications and composition; term and method of appointment; method of electing or appointing chair and vice chair; core processes; how and when meetings will be held; what constitutes a quorum; and how meeting minutes will be written and approved; qualifications and expectations as to time, participation and preparation |
| 4 | Approve Board delegations to staff | establishes a superior-subordinate relationship; defines assignment of day-to-day duties and management of the organization; granting of decision-making authority; responsibility and accountability |
| 5 | Approve Board development policy and education programs | establishes means to determine qualifying programs, sets policy for the type, location and budget of education for the Trustees to ensure compliance with regulations and maintaining the skill and knowledge necessary to continuously improve the effectiveness and efficiency of each trustee and the Board as a whole |
| 6 | Approve Board governance principles and policies | the framework for the governance of the organization, including principles and policies such as: leadership; setting of Board agendas; access to senior management; bylaws; strategic planning process; standards of conduct, including respectful relations with other Trustees and staff and compliance with conflict of interest laws and regulations; placement agent policy; SEC compliance policy; referral of investment opportunities, management selection and vendor contacts; fiduciary review policy |

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| # | Powers Reserved for Board | Definition |
|-------------------|-----------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 7 | Conduct Board self-assessment of its effectiveness | conduct a self-assessment of the effectiveness of the Board in relation to factors such as strategy and implementation, fiduciary and co-fiduciary duties, ethics and conflicts of interest, risk and crisis management, decision-making discipline and Board dynamics <i>Trustee Commentary: The process and timing of self-assessment still needs to be determined, e.g., use of a third party facilitator, whether or not to have 360° feedback, public disclosures policy, inventory of skills matched to policy issues and continuing education.</i> |
| 8 | Oversee strategic planning process | a long-term view of the investment-related changes required to successfully adapt to the ecosystem; the resources required; the authority and accountability to make needed changes; and, provide input to the strategic planning process |
| 9 | Oversee the effectiveness of the Board of Investments strategic plans | the effectiveness of the organization in achieving its strategic objectives |
| 10 | Oversee stakeholder engagement program | the approach for engaging stakeholders who affect or are affected by the Investment program. Design and execution should be the responsibility of the CEO |
| 11 | Oversee business planning process and business plans | a formal statement of investment-related operational business goals, reasons they are attainable, and plans for reaching them; it may also contain background information about the organization or team attempting to reach those goals |
| Investment | | |
| 12 | Approve investment policy statement | the Investment Policy Statement is a comprehensive document which typically contains: 1. statement of investment goal(s), purpose, or mission; 2. identification of investment decision maker(s); 3. statement on investment performance measurement (benchmarking); 4. statement on managing risks of individual securities; 5. statement on managing risk of overall portfolio; 6. money manager guidelines; 7. guidelines for other investment professionals; 8. legal standards; 9. investment cost management; and 10. transacting or brokering trades |
| 13 | Approve investment beliefs | investment beliefs provide direction for the investment organization, investment policies and actions of investment personnel by acting as a guide for the management and administration of the assets in a consistent manner that reflects the views of the Board; the statements can also address investment organization, investment process, financial markets, sustainability and governance, and other types of investment beliefs |

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| # | Powers Reserved for Board | Definition |
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| 14 | Approve investment allocations and benchmark targets | the implementation of an investment strategy that attempts to balance risk versus reward by adjusting the percentage of each asset in an investment portfolio according to the investor's risk tolerance, goals and investment time frame |
| 15 | Approve expected rate of return | the long-term rate of return expected to be achieved by the investment portfolio |
| 16 | Approve actuarial assumptions | the planning assumptions used by the actuary to calculate projected future liabilities of the defined benefit plan, including economic assumptions (e.g., discount rate, inflation rate, salary scale) and demographics assumptions (e.g., withdrawals and terminations, mortality, retirement, disability) |
| 17 | Approve actuarial policies | policies which determine: 1. the actuarial cost method used to allocate benefits to each year; 2. the asset smoothing method to reduce the effect of short-term market volatility; and 3. the amortization policy which determines the length of time to extinguish any unfunded liability or surplus |
| 18 | Approve investment risk appetite and strategy | the amount of risk the investment organization is allowed to take and the means to ensure it remains within those limits |
| 19 | Approve the Investment organization structure through the budget process | the organizational hierarchy and structure to facilitate the effectiveness and efficiency of the investment organization to fulfill its function |
| 20 | Approve Investment organization performance metrics | the metrics to be used to gauge performance of the Investment organization |
| 21 | Approve investment related legislative policy | the approach for responding to legislative initiatives which distinguishes between advocacy, position-taking, and information for decision-making |
| 22 | Conduct selection of investment consultants and advisors | conduct the search and selection process for hiring the general investment consultant and specialty investment consultants to the Board, and manage and monitor the relationship |

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| # | Powers Reserved for Board | Definition |
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| 23 | Oversee overall investment organization performance | actual performance and outcomes of the investment organization compared to expected performance, including achievement of strategic goals, cost management vs. budget, development of organizational capabilities, reputation with stakeholders, etc. |
| 24 | Oversee effectiveness of investment risk management | the process of monitoring to ensure risk limits are not exceeded, surprises are avoided, variability remains within control |
| 25 | Oversee liquidity plans | part of the near-term finance planning with the task of the exact medium-term, short-term, and daily coordination between in- and out-payments |
| 26 | Oversee investment performance | actual Fund performance compared to expected performance, including net-of fees returns compared to selected benchmarks and expected returns over varying time frames |
| 27 | Oversee due diligence (investment and operational) | oversee the due diligence (investment and operational) processes to select investment managers and funds that offer the best fit with the investment beliefs and objectives for the Fund |
| 28 | Approve selection of investment managers or funds | the actual selection of investment managers and funds that offer the best fit with the investment beliefs and objectives for the fund |
| 29 | Oversee private asset valuation | the process for periodically determining the valuation of individual investments; can involve reconciling different valuations provided by the custodian, general partners or other third parties |
| 30 | Oversee investment operations and cost effectiveness | the range of activities involved in selecting and monitoring investments, negotiating investment-related fees, and maintaining cost effective Fund infrastructure |
| 31 | Oversee actuarial valuations and employer rate setting | determining the contributions estimated to be necessary for funding the plan's benefits and providing information about the plan's current funded status |
| 32 | Oversee pension soundness | whether planned contributions plus expected investment income are sufficient to meet projected benefits plus expenses at a point in time |

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| # | Powers Reserved for Board | Definition |
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| Reassurance, Risk and Compliance | | |
| 33 | Oversee internal audits | independent reassurance provided by internal auditors on the reliability of management's assurances about performance and risk (related to investment operations) in collaboration with Audit Committee |
| 34 | Oversee actuarial audits | tool for monitoring the quality of actuarial services performed on behalf of the pension plan. An actuarial audit involves engaging the services of an outside actuary (reviewing actuary) to scrutinize the work of the plan's consulting actuary |
| 35 | Oversee title holding audits | tool for monitoring the quality and reliability of reports of title holding assets |
| 36 | Oversee investment-related enterprise-wide risk framework and management | a comprehensive process for identifying, assessing, controlling and monitoring investment-related risk; includes operational risk (the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events), legal risk, strategic risk, reputational risk, liquidity risk, etc. |
| 37 | Oversee investment controls and compliance | monitoring the quality of asset management accounts, processes and systems with the aim of ensuring compliance with policies and regulations, including conformity in fulfilling investment policy requirements, such as restricted securities, concentration limits, basket clause and other defined limitations |
| Administration of the Investment Operations | | |
| 38 | Approve staff classification and compensation | the policy which describes the classification and amount of money and benefits to be paid to attract and retain qualified personnel (shared with Board of Retirement) |
| 39 | Approve litigation and settlements related to investments | decisions to commence and settle litigation, and resolution of other investment-related legal disputes |
| 40 | Approve budget process and budgets | the process for developing an annual budget for the organization, including both operational and capital needs, and obtaining approval (shared with Board of Retirement) |

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| # | Powers Reserved for Board | Definition |
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| 41 | Conduct hiring, evaluation, compensation, firing of the CEO | the process of hiring, compensating, evaluating, terminating and ensuring appropriate succession planning for the CEO (shared with Board of Retirement) |
| 42 | Oversee human resource policies (excluding compensation) | formal rules and guidelines to hire, train, assess, reward and retain members of the workforce should be determined by the CEO who has authority to run operations. The Board will oversee their effectiveness |
| 43 | Oversee accounting policies for investment activities | the policies affecting the systematic and comprehensive recording of financial transactions and the process of summarizing, analyzing and reporting these transactions that complies with the accounting requirements promulgated by the Governmental Accounting Standards Board (GASB) |
| 44 | Oversee the CEO's effectiveness in hiring/firing and management of performance for senior Investment executives | the process of hiring, compensating, evaluating, terminating and ensuring appropriate succession planning for senior Investment executives |
| 45 | Oversee investment management succession planning | process for developing internal people with the potential to fill key business leadership positions in the organization; succession planning increases the availability of experienced and capable employees that are prepared to assume these roles as they become available |
| 46 | Oversee disclosures of investment fees and expenses | the process of disclosing management, performance, carried interest, partnership fees, and other fees paid to external investment managers to manage investments on behalf of the Fund |
| 47 | Oversee information technology plans and budgets / cyber security for Investments | the system or systems used to gather, store and retrieve information for decision-making and ensure its safe keeping |
| 48 | Oversee business continuity plans for Investment operations | plans and procedures to ensure the continuity of operations in the event of a natural or man-made disaster or other business interruption |